/

U 2635-1 UA
11/14/80

KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE

KENT STATE UNIVERSITY FOUNDATION, INC.
KSU Campus, Student Center
Kent, Ohio 44242/U.S.A.

BEST AVAILABLE COPY

Vol. 6, No. 5, October 31, 1980

KEDI ECONOMIC SURVEY

OCTOBER ISSUE

October 31, 1980

President: Vladimir J. Simunek

This monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, KSU, Ohio, 44242, U.S.A. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

Editor: Diane L. Lewis

Publication No. 108000534
KEDI October 31, 1980

CONTENTS

		PAGE
1.0	OVERVIEW AND ASSUMPTIONS	
1.01	OVERVIEW	1
	Preliminary data released for the third quarter does show some growth. That had been expected here. Using the term "recession" correctly leads to the conclusion that there never was one. KEDI never expected one to develop.	
1.02	ASSUMPTIONS	4
	Changes in assumptions concern the Mid-East crisis and the economic outlook overseas.	
	DETAILED FORECASTS	
1.1	REAL GROWTH	7
	Actual data have been confirming projections made here. Gains in such areas as industrial production, transportation, defense, building materials and new orders, and especially some measure of gain in the very depressed areas of steel output and auto production are (small though they might be) tidbits of treats, not tricks vanishing in the magician's hat.	
1.2	PRICES	12
	The outlook is not too encouraging. This year, the Consumer Price Index will show prices up by 13.6 per cent, as compared with 1979. In 1981, again a 13 per cent rise is expected, and in 1982, some slowdown to 11 per cent will occur.	
1.3	EMPLOYMENT AND LABOR	17
	The forecast here remains basically unchanged. Unlike many analysts that have been expecting unemployment to be in the 8-9 per cent range this year, KEDI has stated for many months that the overall rate would be closer to 7 per cent.	
1.4	HOUSING	18
	Data coming out of Washington is confirming the forecast here that the housing industry would begin to show signs of some growth. Housing starts have been increasing a bit for the past four months. The forecast for starts in 1981 by KEDI is somewhat higher than that of groups more representative of that industry or its financing.	

Contents continued

PAGE

1.5 GOVERNMENT BUDGETS 22

Reagan, Carter, Anderson or what's-his name from the Libertarian party will take office, but none of them will be influential enough to alter the pattern of government spending and revenues significantly enough to achieve the goal of a balanced budget. The budget may reflect a cut in the deficit of around $20 billion in 1983, but after that it will start to grow again.

1.6 INCOME 24

When personal income is adjusted for inflation, no gains are seen. Corporate profit growth during 1981 will be moderate. When that year is compared to the current year, the leaders will be building materials, rubber, paper, steel, autos, and utilities.

1.7 MONEY AND CREDIT 26

Recent indications are that the demand for loans by individuals and by businesses have been on the rise. This is not seen as a danger sign here. It does not mean that the recovery will end. Money supply growth will continue to exceed the Fed's targets.

1.8 INTEREST RATES, YIELDS AND SECURITIES PRICES 29

The projection here is essentially the same as it has been for many months: interest rates will remain at fairly high levels. The prime rate will peak at about 14 per cent in the last quarter of this year.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Gross National Product of the third quarter has been selected for comparison. KEDI's forecast has been close to the target.

TABLES

Table No.		
1.0	KEDI FORECAST HIGHLIGHTS	5
1.10	REAL GROWTH	12
1.20	PRICES AND NOMINAL GNP	15
1.21	CONSUMER PRICE INDEX	16
1.30	EMPLOYMENT AND LABOR	18
1.40	HOUSING	21
1.50	BUDGETS	23
1.60	INCOME	25
1.70	MONEY AND CREDIT	28
1.80	INTEREST RATES, YIELDS AND SECURITIES PRICES	31
2.0	COMPARISON OF ACCURACY OF PREDICTIONS	32

1.0 OVERVIEW AND ASSUMPTIONS

1.0 OVERVIEW

The data recently released have shown that real GNP has gained when compared with the second quarter of this year:

1980 GNP in bil. const. '72 $	
I quarter	1444.7
II quarter	1408.6
III quarter	1412.1

In the early predictions for this year, KEDI stressed that there would not be a recession in the technical sense of the word. Actual developments have confirmed this.

The economic definition of a recession which has been used for many years is as follows: two or more consecutive quarterly declines in GNP. Hence, there has not been any recession in the strict sense of the word - despite the repeated use of the word by the press and the more pessimistic forecasters.

There was, of course, a drastic decline in the economic activity of this nation during the second quarter. Gradual recuperation is now occurring.

Obviously, one has either to admit that, by textbook economics, there was no recession, or one has to redefine a recession. (The folk wisdom which says a recession is when your neighbor is out of work and a depression is when you are jobless is not sufficient here.)

In the spring of this year, personnel in the National Bureau of Economic Research announced that the recession in this country started in January, 1980. This was in spite of the apparent growth of GNP that month and during the entire first quarter. This raises perplexing questions; namely, are the assorted economic phases labeled by the NBER as recessions since 1945 really recessions, and how long did they actually last?

Clarification is needed as to what should be considered as a recession. The confusion needs to be eliminated.

The outlook by this Institute remains unchanged when compared with previous issues. The last quarter of this year is seen as follows:

Some growth of GNP as recovery from the slump proceeds,
a high inflation rate,
no significant changes in the unemployment rate, and
high interest rates.

That is in line with predictions published here in 1979 for the entire current year. At that time the overview of the year included the forecast that 1980 would be as follows:

A flat year concerning economic growth,
with high inflation,
moderate unemployment, and
high levels of interest rates.

The outlook of this Institute remains basically optimistic in terms of growth. It is expected here that GNP will grow by slightly more than 2

per cent during 1981. However there will be continued "growth" in prices also: an inflation rate of 13 per cent is forecast here. It will not abate. Still, in another area, employment, the picture will clear somewhat. Unemployment will decline slightly. There will be strong consumer demand and constant increases in business investment.

The general projections of some other analysts show a range of scenarios. The Business Council, comprised of chief executive officers of large companies, predicted that next year, real GNP will increase by 1½ per cent after a projected decline of nearly 1 per cent this year. They also expect inflation to slow to a 10 per cent rate.

It is pleasurable to present the following quote knowing that this Institute does not fit the description. "Three months ago, I and most other forecasters would have scoffed at a prediction that growth would resume so soon," said Courtenay Slater of the Commerce Department as quoted in the Wall Street Journal on October 20. She referred to most economists as underestimating the underlying strength of the economy. There is no argument on that view from KEDI.

Others did not share that view. For instance, Leon Taub of Chase Econometrics spoke of the most recent actual data as only showing the sharp descent of the downturn being ended. According to him there will be changes in the GNP at minimal levels of plus or minus 1 per cent for most of next year.

On the other hand, economist Michael Evans predicts real GNP will go up 4 to 5 per cent in 1981. He calls this an economic period of stagnation.

Susan Sterne of Economic Analysis Associates indicated that recovery is well under way. She expects real disposable income to be 3.4 per cent higher next year than this year. KEDI certainly agrees with her view that most economists view the consumer spending pattern with too much skepticism, but does not agree that per capita real disposable income will gain.

A more cautious view of the economy was expressed by George Perry of the Brookings Institution when he indicated that it was a toss up as to whether a recovery really did start in August or even in September. At least he did see third quarter inventory liquidations as a possible plus for fourth quarter production.

In summary, it is expected by this Institute that the last quarter of this year will be slightly above that quarter of 1979. It is forecast here that in 1981 there will be a 2 per cent growth in real GNP, an inflation rate of 1 per cent and some slight declines in unemployment. KEDI's forecast is highlighted on Table 1.0 on the following page.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the Sept., 1980, issue, the changes concern the Assumptions No. 2 and 7, and update of Assumption No. 1.

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1979	1980	1981	1985
Gross National Product	bil. const. 72 $	1431.7	1421.5	1452.0	1675.9
Index of Industrial Production	1967 =100	152.5	145.8	151.8	173.6
Capacity Utilization	%	85.7	79.5	82.6	87.0
Unemployment Rate	%	5.9	7.2	7.3	6.5
Private Housing Starts	mil. units	1.721	1.314	1.567	1.921
Car Sales	mil. units	10.8	8.7	9.6	12.2
Implicit GNP Price Deflator	1972 =100	165.5	180.8	198.8	288.4
Consumer Price Indes	1967 =100	217.5	246.2	276.2	421.8
Producer Price Index	1967 =100	236.2	270.6	312.2	449.3
Federal Deficit	bil. $	-11.2	-43.0	-43.6	-19.1
Personal Income	bil. $	1924.2	2117.5	2411.1	3703.5
Prime Rate	%	12.76	14.35	12.61	11.09
Mortgage Rage	%	10.60	13.06	12.41	10.90
Currency plus Demand Deposits	bil. $	363.8	378.9	4.2	526.8
Commercial and Industrial Loans	bil. $	290.5	312.7	331.4	419.7

1. In 1985, all U.S. demands for oil should be met. The weighted price of oil in 1980 will go up to the $34 range. In 1981, it is expected the price will go up to $42, in 1982, to $50 per barrel. In 1983, to $58 per barrel, in 1984, to $62 per barrel and in 1985, to $67 per barrel.

2. It is expected, that the Iranian-Mid East crisis will continue throughout the next year, and more normal economic situations, including a significant resumption in the area's of oil exports, will take place not earlier than in 1983. Compared with the August 1980 forecast, higher price increases of energy items and substantially higher U.S. defense orders have been considered.

3. In the last months of this year, tightening of monetary policy is expected. Tight monetary policy will continue throughout 1981, and some relaxation will take place not earlier then 1982.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation. The Federal Reserve Board will, at long last, begin a policy of setting limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy.

5. Our foreign trade with China will expand more rapidly starting this year, and will gain a substantial momentum in 1981 and following years.

6. In 1981 and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring record crops. For this year, the forecast data for some crops, mainly corn, soybeans, cotton, and some other crops will be lower than those of the last year.

7. It is projected here that the rates of growth in 1980-82 in the major industrial countries will be as follows for real GNP:

	1980	1981	1982	1983
West Germany	2.3%	2.2%	2.8%	3.0%
Japan	1.5%	1.6%	2.2%	2.8%
Italy	1.7%	1.5%	2.0%	2.4%
Great Britain	1.3%	1.4%	2.0%	2.4%
France	1.9%	2.0%	2.4%	2.7%

1.1 REAL GROWTH
(Table 1.10 on Page 12)

The economic news that has been coming in during the last month is fullfilling the forecasts that have been made by KEDI. The latest news has probably been surprising to many analysts.

First, preliminary reports show that GNP grew by 1 per cent in the third quarter as compared to the second quarter level. That quarter had shown a decline of 9.6 per cent from the first quarter. (As a memory refresher, the first quarter of this year really did show some growth: GNP then was 1.2 per cent above the prior period.) Consumer spending gains were given

the credit for much of the gain in the July-September period.

Factory, utility, and mine production went up by 1 per cent in September from the August level. The August rate of industrial output was 0.6 per cent above the July level. Much of this slow gain reflected a bit of recovery in the very troubled auto and construction fields.

As industrial production did go up some in both August and September, there was some improvement in capacity utilization. Still the 75.6 per cent operation rate was below the 85.2 per cent rate maintained in the like period of 1979.

New factory orders for durable goods were a bright spot in September. Such orders went up by 8.1 per cent from the August level. Although such orders did move downward slightly in August, they had gone up by over 11 per cent in July from the previous month. KEDI agrees with William Cox of the Commerce Department as he expressed the view that the July gain was the first month of an upturn and the September gain reinforces it, despite the August data.

The good old (but not always reliable) index of leading economic indicators managed to go up by 1.7 per cent in August. The September gain was estimated at 2.4 per cent largely attributed to a decline in layoffs from manufacturing jobs and a gain in building permits. That is the fourth month of gains for this index. It points to future growth and increased consumption and production.

New orders by manufacturers showed some gain in August over the July level. Unfilled orders also showed a slight gain.

A survey of buying agents for 225 companies revealed that they view the economy as getting better but are cautious due to inflation. The survey showed that almost half were putting off some capital spending due to the high cost of money and slow business conditions.

Another sign of movement in the economy is found in the increased rate of movement of corporate executives. After some decline during the downturn, firms involved in relocating executives report a return to the transfer rates of 1979 and early 1980, according to Louis Rukeyser's column. More companies have had to get into the real estate business to underwrite mortgage costs for those being transferred. The average cost of moving a family of four 1,000 miles has skyrocketed by 50 per cent to 35,000 from a year ago according to the head of the relocation firm, Homequity.

Retail sales were up by 0.6 per cent, inflation adjusted, in September. Economists at Citybank view the sales here as being even slower paced than that as the August estimate has been lowered. Townsend Greenspan, a consulting firm, voiced the view that there is no clean sign that the consumer sector is showing any strength in this recent data. KEDI forecast data indicate strength and continous growth in this area.

Without adjusting for inflation, but adjusting seasonally, retail sales in

September were up by 1.6 per cent over the August level. That was the fourth consecutive month that there have been modest gains in this area. Total retail sales in September were up by 4.4 per cent from the year-earlier level. Most of the gain was in nondurables.

It is important to note that there are even some glimmers of good news in some of the depressed areas of the economy. Steel production was up to about 7.77 million tons in September from the 7 million ton level in August. Still those amounts are well below typical monthly output of the last few years.

The belaguered auto industry which will continue to have loses, recorded some sales gains in early October. That was a first for gains since last January. However, the year-to-year gain of 12 per cent was not strictly comparable as new models were introduced in early October of this year and in late October last year. Auto assemblies in September were up from the August annual rate by 7 per cent but still 24 per cent lower than the year earlier figure.

The news concerning crops has not been very good. Estimates have again been cut. The latest Agriculture Department forecast indicates that the corn crop this year will be 17 per cent below last year's record harvest and the soybean harvest will be 21 per cent lower.

Overall, the news has indicated general improvement. The developments have been in line with projections that have been made here.

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2*	3	4	
Gross National Product, 1972 $	bil. $	1431.7	1444.7	1408.6	1412.1	1420.7	1421.5
Index of Industrial Production	1967=100	152.5	152.2	144.6	141.2	144.7	145.8
Unemployment Rate	%	5.9	6.1	7.5	7.6	7.7	7.2
Capacity Utilization Rate	%	85.7	85.1	77.0	75.8	78.8	79.3
Private Housing Starts	mil. units	1.721	1.330	1.048	1.403	1.475	1.314
Car Sales	mil. units	10.8	9.5	7.7	8.7	8.9	8.7
Indicator	**Unit**	**1981**	**1981**				**1981**
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1421.5	1429.8	1443.6	1458.2	1476.5	1452.0
Index of Industrial Production	1967=100	145.8	148.3	150.1	152.6	156.0	151.8
Unemployment Rate	%	7.2	7.6	7.4	7.1	6.9	7.2
Capacity Utilization Rate	%	79.3	79.7	81.4	84.5	84.9	82.6
Private Housing Starts	mil. units	1.314	1.376	1.535	1.712	1.644	1.567
Car Sales	mil. units	8.7	8.7	9.0	10.1	10.5	9.6
Indicator	**Unit**	**1982**	**1982**				**1982**
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1452.0	1488.3	1508.3	1537.2	1554.7	1522.1
Index of Industrial Production	1967=100	151.8	159.7	162.3	164.6	166.8	163.4
Unemployment Rate	%	7.2	6.7	6.3	6.2	6.1	6.3
Capacity Utilization Rate	%	82.6	86.0	86.3	86.2	86.5	86.3
Private Housing Starts	mil. units	1.467	1.427	1.656	1.743	1.663	1.623
Car Sales	mil. units	9.6	10.3	10.9	11.0	11.1	10.8

* Historical Data

There is the view that the recovery is likely to be a "heads, you win--tails, I lose" situation. The outlook from that point of view presents a picture of recovery adding too much fuel to the fires of inflation, interest rates going up, and any recovery being thoroughly dampened and spiraling into another downturn.

KEDI does not subscribe to that line of reasoning. There will not be any rapid recovery. The slow pace of growth forecast here will not contain the seeds of its own destruction.

1.2 PRICES

(Table 1.20 on page 15, and Table 1.21 on page 16)

Due to the expected slowdown in grain, meat, and dairy products supplies gain during the rest of this year and in 1981, there will be additional increments added to food prices. This is the basic reason that the forecast here for price gains has been adjusted upward slightly compared to the previous forecast.

This Institute agrees with the forecast by those in the field that food prices will go up next year. In the spring, farmers were worried about a surplus of hogs and grain. The heat and long dry spell has changed that. Meat prices account for one-third of the consumer price index for food. Agricultural economists expect food prices to climb by 12 per cent in the first half of 1981.

Egg prices will continue to go up. The steep rises in the cost of chicken feed have driven more producers to take those hens to the soup kettle rather than lose any more money on egg production. (For the cost conscious buyer that read this, a dozen eggs weigh about one and one-half pounds.) If eggs sell for $1 a dozen--likely next year--that is about 67 cents a pound. That is still a cheaper source of protein than meat. As many scramble away from the meat counter to try to break even on many food budgets by breaking more eggs, some will enjoy quiches and omelets and others will cluck in dismay at the thought of eggs instead of meat for dinner.

As to nonfood prices, it is anticipated here that higher than average price rises will be seen for lumber, primary and nonferrous metals; mainly steel, iron, copper and aluminum. Also houses, cars, heating oil and gasoline will reflect above average rises in prices.

There have been sharp gains in the prices for lumber for many years now. The recent lull is only temporary. The cost of unharvested trees in the Northwest went up an average of over 300 per cent in the '70's. Buyers paying dearly for lumber now or for unharvested trees are betting on renewed strength in the housing market in the next few years. Again, this is one factor contributing to the projected higher increases in house prices.

Automobiles: the current prices are a shock to people that have not looked for a new car for a few years. The average GM car with extras now costs over $9,400. The prices for new cars in general are up about 20 per cent and will continue to rise as much as the federal guidelines allow or

Detroit can bend those guidelines due in part to their huge losses. It may be, again, that their loss and attempt to recoup some by charging more will be foreign makers gain if an increasing portion of Americans willingly or begrudgingly switch to foreign compact models, or decide not to buy a car at all.

In order to run those more costly cars, more costly gas will have to be used. U.S. energy chief Frank Zarb predicted this month that gasoline will cost $3 a gallon in 1985. (He also reminded people of his prediction that most scoffed at made in 1975 that gas would cost about $1.25 in 1980.) KEDI agrees with Mr. Zarb. (KEDI's prediction, published in September 1979, is that gas will cost approximately $1.50 at the end of 1980. The prediction of this Institute for the year 1983 is $2.80 per gallon, and for 1985 it will approach $5. The prediction that crude oil will go up to $100 a barrel in 1987 is viewed here as close to the reality.

KEDI has prepared a more detailed outlook for the consumer prices in the next two years. In Table 1.21 on page 16, prices are measured by the Consumer Price Index. It is well known that the Consumer Price Index (CPI) is not without its faults. We do not buy a new house every month or so, and consumer spending patterns vary. The index is heavily weighted regarding housing costs: CPI assumes the average cost of shelter takes a 44 per cent chunk out of personal income. On the other hand, it doesn't include personal income taxes, and "bracket creep" has been taking a larger bite for millions. Keeping these factors in mind, the CPI is useful for broad clues as to what is happening to prices.

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979	1980				1980
			1*	2*	3	4	
Consumer Price Index, NSA	1967=100	217.5	236.6	245.0	249.6	253.7	246.2
Producer Price Index, NSA	1967=100	236.2	258.7	263.7	274.1	285.7	270.6
Implicit GNP Price Deflator	1972=100	165.5	174.5	179.0	182.9	186.9	180.8
Gross National Product	bil. $	2369.5	2520.8	2521.3	2583.0	2655.3	2570.1
Personal Consumption Expenditures	bil. $	1510.0	1629.5	1626.6	1681.8	1723.6	1665.4
Gross Private Dom. Investment	bil. $	387.3	387.7	368.5	346.0	363.7	366.5

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	242.2	242.2	272.1	280.4	287.9	276.2
Producer Price Index, NSA	1967=100	270.6	296.5	308.4	316.9	327.1	312.2
Implicit GNP Price Deflator	1972=100	180.8	190.9	195.2	201.8	207.1	198.8
Gross National Product	bil. $	2570.1	2729.5	2817.9	2942.6	3057.8	2885.2
Personal Consumption Expenditures	bil. $	1665.4	1762.9	1822.7	1937.9	2385.5	1922.3
Gross Private Dom. Investment	bil. $	366.5	375.5	394.5	605.1	425.2	400.1

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967=100	276.2	295.0	300.2	310.1	319.4	306.2
Producer Price Index, NSA	1967=100	312.2	339.5	348.7	357.5	364.1	352.5
Implicit GNP Price Deflator	1972=100	198.8	209.1	213.8	216.9	222.2	215.8
Gross National Product	bil. $	2885.2	3112.0	3224.7	3349.6	3454.5	3285.2
Personal Consumption Expenditures	bil. $	1922.3	2036.1	2119.7	2211.9	2284.6	2163.1
Gross Private Dom. Investment	bil. $	400.1	439.8	457.9	475.1	497.3	467.5

* Historical Data

TABLE 1.21 CONSUMER PRICE INDEX

(1967=100, All Urban Consumers)

	1978	1979	1980	1981				1981	1982				1982
				1	2	3	4		1	2	3	4	
All Items	195.4	217.4	246.2	264.2	272.1	280.4	287.9	276.2	295.0	300.2	310.1	319.4	306.2
1. Food and Bever.	206.2	228.7	245.4	256.5	264.4	272.9	277.7	267.9	280.4	283.8	291.7	304.5	290.1
2. Housing:													
-Shelter	210.4	239.7	280.2	302.4	310.6	317.7	324.8	313.8	335.8	349.1	256.9	365.6	351.8
-Fuel and Utilities	216.0	239.3	276.5	298.9	314.0	323.6	331.9	317.1	343.4	356.9	364.6	377.0	360.5
-Households Furnish and Operation	177.7	190.3	205.5	219.1	223.2	225.5	229.1	224.2	235.6	241.7	247.8	251.3	244.4
3. Apparel and Upkeep	159.6	166.6	179.0	186.8	189.3	190.7	193.6	190.1	198.3	202.4	203.6	205.6	202.5
4. Transportation	185.5	212.0	250.0	268.7	281.0	291.7	299.9	285.3	308.9	315.1	321.0	326.3	317.8
5. Medical Care	219.4	239.7	265.9	273.2	283.7	296.1	308.4	290.4	311.2	315.1	319.0	323.2	317.1
6. Entertainment	176.2	187.6	207.1	221.5	227.2	233.7	238.3	228.4	243.0	249.6	253.7	256.9	250.8
7. Other Goods and Services	183.2	196.3	214.9	224.7	231.5	239.6	246.1	235.5	251.6	255.3	260.3	264.3	257.9

The price developments as shown in Table 1.21, do not present an encouraging picture. The price increases are 13.2 per cent in 1980, compared with 1979; 13.6 per cent in 1981, and 11.0 per cent in 1982. The Bureau of Labor Statistics estimates that an average family of four with total expenditures of $20,520 will have monthly spending as follows: food, $420; shelter, $383; transportation, $154; clothes and personal care, $139; medical care, $98; other consumption, $85; personal income tax $253; all other, including Social Security, $178. Comparing that distribution with one's own spending may be depressing. (It could be cheering especially if your a vegetarian in good health that doesn't smoke or drink and can jog to work.)

1.3 LABOR

(Table 1.30 on page 18)

The forecast here is basically unchanged. The overall projected unemployment rate for 1980 has been reduced just a bit from 7.27 to 7.22. The reader is referred to Table 1.30 on page 18.

Contrary to many forecasters, KEDI has never been predicting unemployment in the 8-9 per cent range for 1980. For 1981, it is expected here that the situation in the labor market will remain roughly the same overall; a year average of 7.24 but the quarterly data will show gradual improvement. For instance, the projection here for first quarter 1981 unemployment is 7.61 million and for the fourth quarter it is 6.90 million.

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Population	mil.	220.4	221.9	222.6	223.4	224.1	223.0
Civilian Labor Force	mil.	103.3	104.2	104.7	105.2	106.0	105.0
Employed	mil.	97.2	97.8	96.9	97.2	97.9	97.5
- Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
- Non Agriculture	mil.	93.9	94.5	93.5	93.8	94.6	94.1
Unemployment Rate	%	5.8	6.13	7.46	7.63	7.65	7.22

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.0	106.6	107.0	107.8	108.5	107.5
Employed	mil.	97.5	98.5	99.1	100.2	101.0	99.7
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.1	95.2	95.8	96.8	97.7	96.4
Unemployment Rate	%	7.22	7.61	7.39	7.05	6.90	7.24

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.7
Civilian Labor Force	mil.	107.5	109.1	109.9	110.7	111.6	110.3
Employed	mil.	99.7	101.8	103.0	103.9	104.8	103.4
- Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
- Non Agriculture	mil.	96.4	98.5	99.6	100.5	101.5	100.0
Unemployment Rate	%	7.24	6.70	6.29	6.18	6.08	6.31

* Historical Data

The following industries will be the central ones to experience some declines in their rates of unemployment: steel, construction, and cars. Some improvement in demand for labor is also expected to occur in the defense industry, rubber and plastics, chemicals, machinery, and paper industries during 1981.

Average employment levels on about the same level next year as during this year are anticipated for mining, textiles, food, and appliances.

Although declines in the unemployment rate do show economic improvement, there is still the ongoing debate as to just how many people out there want to work but are not officially counted as they gave up looking after numerous rejections. A recent article in the Harvard Business Review questioned anew the assumption that most unemployment is due to short-term unemployment and rather rapid job turnover. The authors, Kim B. Clark and Lawrence Summers express the view that there simply are not enough jobs to go around. They estimated that for each of the 6 million unemployed by official reports in June, there was another person also without work but no longer counted as they had given up looking. KEDI's projections incorporate approximately the same ratio of "disguised" persons to those actively seeking employment.

1.4 HOUSING

(Table 1.40 on page 21)

The forecast by this Institute for the recovery from the slump in housing remains relatively optimistic. Recently released data documents this.

For one, housing starts went up by 9 per cent in September. That is the fourth consecutive month of gains. True, there was a jump in federally subsidized housing units but that wasn't the main part of the gain. A start is no less of a start for the construction worker because it is government financed.

Sales of used homes in September moved ahead by 10 per cent to a seasonally adjusted annual rate of over 3.3 million units from the August rate of 3 million. Demand for homes even with mortgage rates of 13 and 14 per cent indicate willingness to pay,and ability to finance such rates is not as weak as many thought.

Sales of new one-family homes were down by 4.9 per cent in August on a seasonally adjusted basis. It is expected that the September data will show improvement.

Also, in September there was a 14.7 per cent gain in new permits for housing construction over the prior month. Most of this gain was in permits for multifamily buildings.

KEDI does not share the view that housing will slow in the coming months because of high mortgage rates. The National Association of Home Builders predicted in late October that housing starts would drop to an annual rate of 1.3 million units in the fourth quarter from the 1.4 million rate of the third quarter and then rebound a bit next year.

TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Single-Family Housing Starts	mil.	1.169	.801	.669	.973	.969	.853
Multifamily Housing Starts	mil.	.551	.529	.379	.430	.506	.461
Mobile Home Shipments	mil.	.283	.257	.180	.198	.197	.208
Housing Permits Issued	mil.	1.535	.965	.885	1.241	1.042	1.033
Construction Costs-Commerc.	1972=100	188.2	193.5	197.0	199.5	202.8	198.2
Construction Costs-Resident.	1972=100	178.8	192.1	196.4	200.6	204.5	198.5

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil.	.853	.894	.986	1.114	1.056	1.013
Multifamily Housing Starts	mil.	.461	.482	.549	.598	.588	.554
Mobile Homes Shipments	mil.	.208	.225	.271	.282	.296	.269
Housing Permits Issued	mil.	1.003	.998	1.245	1.467	1.416	1.282
Construction Costs-Commerc.	1972=100	198.2	209.1	217.3	221.5	231.7	219.9
Construction Costs-Resident.	1972=100	198.4	210.4	217.0	221.2	230.5	219.8

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.913	.869	1.024	1.089	1.005	.997
Multifamily Housing Starts	mil.	.554	.558	.632	.654	.658	.626
Mobile Homes Shipments	mil.	.269	.273	.314	.321	.301	.302
Housing Permits Issued	mil.	1.282	1.347	1.682	1.774	1.705	1.627
Construction Costs-Commerc.	1972=100	219.9	238.7	250.7	257.2	266.1	253.2
Construction Costs-Resident.	1972=100	219.8	241.3	249.7	255.6	265.4	253.0

* Historical Data

Some analysts are predicting a slowdown in housing in the next few months. KEDI does not agree. According to calculations here, there will be some slight improvement in the fourth quarter. In the September issue of the KEDI survey, the projection for the fourth quarter was 1.29 million starts. That has been reversed upward to over 1.4 million.

Also, this Institute forecasts a somewhat better showing by housing during 1981. Mr. Janis of the Federal Home Loan Bank Board predicts housing starts in 1981 will total 1.5-1.6 million. The U.S. League of Saving Associations uses 1.5. The KEDI estimate is now close to 1.6 million which is slightly below the 1979 level.

1.5 GOVERNMENT BUDGETS

(Table 1.60 on page 23)

As stated in Assumption number 8, a $35 billion tax cut was incorporated into the KEDI forecast as reported in the September issue. Prior to that time, a tax cut of $30 billion had been assumed.

As compared with the projection made last month, the forecast of revenue items has been slightly increased. This is due to improvements in general economic activity projected by KEDI for this quarter and for the next few years. The federal budget deficit has been increased for fiscal 1979-80 from an anticipated $58 billion to $60 billion. Over the long-term, a more significant reduction in that is not expected any earlier than 1983.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	225.0	239.9	242.9	249.0	257.4	247.3
Corporate Profit Tax Accruals	bil. $	78.5	86.8	65.6	70.2	76.0	74.7
Surplus./Deficit	bil. $	-11.2	-22.9	-49.2	-54.4	-45.6	-43.0
State and Local Governments:							
Income Taxes	bil. $	40.7	39.7	39.2	41.5	43.2	40.9
Corporate Profit Tax Accruals	bil. $	14.4	15.6	12.0	12.2	13.0	13.2
Surplus./Deficit	bil. $	24.7	24.6	19.5	19.5	20.2	21.0

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	247.3	269.7	90.3	309.5	320.7	297.6
Corporate Profit Tax Accruals	bil. $	74.7	80.9	97.4	101.5	105.4	96.3
Surplus./Deficit	bil. $	-43.0	-41.0	-46.1	-47.0	-40.3	-43.6
State and Local Governments:							
Income Taxes	bil. $	40.9	44.5	46.2	47.4	49.3	46.9
Corporate Profit Tax Accruals	bil. $	13.2	14.8	15.4	17.9	19.4	16.9
Surplus./Deficit	bil. $	21.0	21.1	23.3	24.9	26.8	24.0

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	297.6	331.2	341.5	351.9	362.3	346.7
Corporate Profit Tax Accruals	bil. $	96.3	111.7	118.9	124.1	127.5	120.6
Surplus./Deficit	bil. $	-43.6	-34.0	-28.7	-12.4	-19.0	-21.0
State and Local Governments:							
Income Taxes	bil. $	46.9	51.2	53.4	54.8	56.9	54.1
Corporate Profit Tax Accruals	bil. $	16.9	22.1	24.8	26.2	28.9	25.5
Surplus./Deficit	bil. $	24.0	27.4	29.4	31.6	32.4	30.2

* Historical Data

At that time, it appears that the deficit will be reduced by roughly $20 billion from the expected $40 billion in this calendar year, and $20 billion in calendar 1983. It will rise again after that time. Despite the efforts or lack of them on the part of the U.S. President, the wheels of government turn slowly, and the supply of red ink is as endless as the need and/or demand for government dollars.

The projected figures for state and local budgets have remained basically unchanged.

1.6 INCOME

(Table 1.60 on page 25)

The forecast data for income and components in Table 1.60 shows constant growth in all indicators during both 1981 and 1982. However, adjusted for inflation by a price deflation and population growth, the picture becomes rather grim and dim. There is no growth in real per capita personal disposable income in these years.

	1980	1981	1982
Real per capita personal disposable income (in thousands $)	4,650	4,589	4,623

In September personal income went up by 0.9 per cent. The August data on personal income showed there was no real change. That is, the 0.7 per cent rise was matched by the 0.7 rise in the personal consumption expenditures deflator. Private wages and salaries went up an estimated 0.8 per cent in September from the August level. Personal interest income was up by 0.6 per cent and transfer payments gained 1.7 per cent in this period.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Personal Income	bil. $	1924.2	2057.4	2080.5	2141.1	2191.0	2117.5
Personal Dispos. Income	bil. $	1624.1	1737.4	1755.9	1807.5	1838.8	1784.9
Compensation of Employees	bil. $	1459.5	1555.2	1564.2	1590.1	1658.7	1592.0
Corp. Profits After Tax	bil. $	144.6	158.0	127.1	128.0	133.4	136.6
Personal Saving	bil. $	73.2	64.4	86.3	83.3	95.1	82.3
Average Weekly Earnings	$	219.4	229.2	231.2	232.8	235.3	232.1

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Personal Income	bil. $	2117.5	2258.6	2319.8	2546.1	2520.0	2411.1
Personal Dispos. Income	bil. $	1784.9	1894.3	1956.0	2070.2	2143.8	2016.1
Compensation of Employees	bil. $	1592.0	1718.8	1762.3	1872.6	1946.7	1825.1
Corp. Profits After Tax	bil. $	136.6	143.1	152.6	170.3	175.8	160.5
Personal Saving	bil. $	82.3	97.4	97.0	100.6	97.3	98.1
Average Weekly Earnings	$	232.1	238.6	242.6	245.9	250.1	244.3

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2411.1	2563.5	2648.1	2748.5	2833.6	2698.4
Personal Dispos. Income	bil. $	2016.1	2163.0	2258.3	2335.6	2409.0	2291.5
Compensation of Employees	bil. $	1825.1	1971.5	2058.9	2150.6	2245.3	2106.6
Corp. Profits After Tax	bil. $	160.5	180.9	185.0	190.8	191.8	187.1
Personal Saving	bil. $	98.1	98.2	96.4	91.3	94.4	95.1
Average Weekly Earnings	$	244.3	255.0	260.1	265.8	271.7	263.2

* Historical Data

The forecasts for corporate after-tax profits have been reduced slightly. The central factors here are the losses of automakers, low profits in the steel industry, construction, and chemicals. We expect that profits will show some improvement, in general, during the fourth quarter of this year and resume a less sickly trend in 1981 for the above industries.

If 1980 is used as a base year, 1980=100, (It has not been an outstanding year but it certainly has not been a real bummer.) then the following industries will show the main gains in profits according to calculations by this Institute: aerospace, +14%; airline, +8%; building materials, +15%; chemicals, +5%; food products, +14%; petroleum products, +20%; rubber, +21%; paper, +18%; steel, +17%; automakers, +17%; electrical equipment, +11%; textiles, +6%; railroads, +20%; utilities, +15%; banks, +9%; and last but not least (witness all the ads trying to get us to give up anything that is silver or gold, as if prices will never go up again) mining and metals, +11%. These percentages are not adjusted for inflation.

1.7 MONEY AND CREDIT

(Table 1.70 on page 28)

Although the money supply did decline some in the last part of September, in early October, the upward trend resumed. M1A moved ahead by $4.1 billion in the first week of October to a seasonally adjusted average of $385.8 billion. M1B, which is a broader measure, was up by just over $5 billion to an adjusted average of $409.7 billion. These gains fit into

the projections that have been made here. Although measures of weekly totals exaggerate change, the range of figures indicate the monthly total. The KEDI projection for M1A in the fourth quarter appears to be close to what will develop: namely M1A of about $390 billion.

KEDI expects that growth in the money supply will continue during the rest of the year and for the next few years beyond the targets set by the Feds. It is assumed here that the Federal Reserve will not repeat its rather unsuccessful (to put it mildly) experiment of March 14 to attempt to curb inflation by cutting the money supply. This Institute's projected rates of growth for the money supply are as follows:

	Increase in per cent over the previous year:		
	1980	1981	1982
M1A	+4.1	+9.3	+7.7
M2	+7.7	+9.5	+8.1

Both of these measures of the money supply indicate expansion well above the Fed's guideline of 3.5 - 6.0 per cent for long-term growth. Those targets are viewed here as not being too realistic. The projected data here show moderate growth which corresponds to the rather sluggish rate of recovery and the anticipated rate of inflation.

Recent data have shown that the demand for commercial and industrial loans as well as demand for consumer credit are on the rise again. As was mentioned earlier, consumer debt went up by $15 billion in August. Compared to the year-earlier total, such debt was up by 1.2 per cent. (Consumer debt had expanded by 13 per cent in 1979 as compared to the prior year.)

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1979	1980				1980
			1*	2*	3	4	
Currency + Demand Deposits, M1A	bil. $	363.8	374.8	368.9	380.1	391.8	378.9
Time Deposits, Adjusted, M2	bil. $	1471.4	1543.6	1565.8	1604.3	1621.5	1583.8
Consumer Instal. Credit	bil. $	311.1	307.6	301.4	304.7	308.9	308.9
Commerc. and Industr. Loans at Banks	bil. $	290.5	302.7	301.7	304.9	312.7	312.7
Negotiable Cert. of Deposits	bil. $	115.6	117.2	121.4	122.5	127.5	127.5
Mortgages at S & L Assns.	bil. $	475.8	479.3	479.1	482.7	490.3	490.3
Indicator	**Unit**	**1980**	**1981**				**1981**
			1*	2*	3	4	
Currency + Demand Deposits, M1A	bil. $	378.9	397.8	411.7	419.6	427.8	414.2
Time Deposits, Adjusted, M2	bil. $	1583.8	1682.8	1724.9	1749.7	1778.6	1734.0
Consumer Instal. Credit	bil. $	308.9	315.1	321.3	325.7	331.4	331.4
Commerc. and Industr. Loans at Banks	bil. $	312.7	317.6	325.6	331.4	338.9	338.9
Negotiable Cert. of Deposits	bil. $	127.5	132.4	136.1	144.8	150.3	150.3
Mortgages at S & L Assns.	bil. $	490.3	496.2	501.8	512.4	520.3	520.3
Indicator	**Unit**	**1981**	**1982**				**1982**
			1*	2*	3	4	
Currency + Demand Deposits, M1A	bil. $	414.2	433.6	442.9	450.7	458.7	446.5
Time Deposits, Adjusted, M2	bil. $	1734.0	1810.7	1853.4	1901.5	1937.4	1875.8
Consumer Instal. Credit	bil. $	331.4	338.9	349.5	359.7	370.4	370.4
Commerc. and Industr. Loans at Banks	bil. $	338.9	345.3	351.9	361.4	370.4	370.5
Negotiable Cert. of Deposits	bil. $	150.3	155.4	160.8	162.3	160.1	160.1
Mortgages at S & L Assns.	bil. $	520.3	530.2	538.3	546.2	560.9	560.9

* Historical Data

The gains in credit are not viewed here as red flags of danger. The view of some economists that see this as a cause of alarm and fright is not seen here. Added inflationary presuure from the monetary and credit sides are not going to result from this credit expansion. (On this Halloween night the ghosts and goblins of more economic gloom are dismissed by KEDI.) As has been stated here for many months, rather flat economic performances followed by moderate gains are anticipated.

Consumer installment credit outstanding went up a bit in August after four months of declines. The total outstanding was $303.3 billion - very close to the amount that was projected here.

1.8 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.8 on page 31)

The forecast here remains basically unchanged when compared to the former issue. Recent hikes in interest rates have confirmed the projection made by KEDI months ago that at the end of this year, interest rates would be at high levels. Relief will not come before the second half of 1981.

The overly optimistic predictions of many economists made in prior months that expected the prime rate in September to fall below 10 per cent has never been the outlook of this Institute. Correspondingly, other interest rates have not been projected here at anything but rather high levels.

There are two principle reasons that projections here do not include any significant drops in interest rates. First, the recovery in 1981-82 that

is expected by KEDI will keep demand for loans at a high level. Secondly, other nations are fighting inflation and will keep doing that in the foreseeable future so their interest rates will remain high. Consequently, the U.S. interest rates cannot drop much below the level existing in other major countries for any sustained length of time.

KEDI's projection shows, that the high level interest rates will not significantly affect the performance of the stock market. As demonstrated in Table 1.80 on the Standard and Poor's 500 average index, no dramatic ups and downs are expected in 1981-1982 period.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Gross National Product in current dollars for the third quarter 1980 has been selected for comparison. Actual figures have been taken from the October 1980 release of the U.S. Department of Commerce, on the U.S. Income and Product in the third quarter of 1980. Forecast data is from Business Forecasts 1980, published by the Federal Reserve Bank of Richmond, Va., February, 1980, Library of Congress Catalogue Card No: 75-189493. The table on the next page shows the predictions of forecasters and the deviations of forecast data.

TABLE 1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES

Indicator	Unit	1979*	1980				1980
			1*	2*	3	4	
3 mo Treas. Bills Rate (new issues)	%	10.19	13.35	9.97	9.84	11.31	11.12
Prime Rate	%	12.76	16.39	15.74	11.42	13.86	14.35
Mortgage Rate, New Homes	%	10.60	15.23	12.27	11.01	12.74	13.06
Aaa Bonds Rate	%	9.63	12.14	11.05	11.94	12.01	11.79
Long Term Govt. Bonds Yield	%	9.33	11.78	10.71	10.31	10.87	10.92
Standard & Poor's 500 Average	1941-43 =100	102.83	110.30	108.40	122.88	119.54	115.28

Indicator	Unit	1980	1981				1981
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.12	11.80	11.71	11.54	10.89	11.49
Prime Rate	%	14.35	13.54	12.81	12.14	11.93	12.61
Mortgage Rate, New Homes	%	13.06	12.71	12.46	12.31	12.14	12.41
Aaa Bonds Rate	%	11.79	12.24	11.83	11.31	11.05	10.87
Long Term Govt. Bonds Yield	%	10.92	10.95	11.02	10.87	10.64	10.87
Standard & Poor's 500 Average	1941-43 =100	115.28	119.85	122.43	126.71	130.14	124.78

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.49	10.65	11.04	11.95	11.87	11.38
Prime Rate	%	12.61	11.84	12.16	12.28	12.51	12.20
Mortgage Rate, New Homes	%	12.41	12.03	11.85	11.43	11.05	11.59
Aaa Bonds Rate	%	10.58	10.97	11.09	11.48	11.96	11.38
Long Term Govt. Bonds Yield	%	10.87	10.36	10.31	10.16	10.84	10.42
Standard & Poor's 500 Average	1941-43 =100	124.78	136.21	139.18	130.53	129.41	133.83

* Historical Data

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

GROSS NATIONAL PRODUCT
(Third quarter 1980, bil. of current $)

Actual: 2583.0

FORECASTER	Page in Business Forecasts 1980	Forecast	% of Accuracy
Chemical Bank	21	2605.0	+ .9
The First National Bank of Chicago	22	2542.0	-1.6
Goldman Sachs	29	2604.0	+ .8
American Statistical Association and National Bureau of Economic Research	23	2550.0	-1.3
Georgia State University	24	2535.3	-1.8
Peter L. Bernstein	25	2527.0	-2.3
The UCLA National Business Forecast	26	2537.3	-1.8
Cyrus L. Lawrence, Inc.	27	2533.3	-2.0
Wharton Econometric Forecasting Assoc.	27	2592.3	+ .4
Alex Burkholder, WGN Continental Broadcasting Co.	28	2491.1	-3.6
Bankers Trust Company	28	2555.9	-1.0
The Fidelity Bank	30	2589.0	+ .2
KEDI	31	2607.5	+ .9
U.S. News and World Report, Economic Unit	32	2495.2	-3.4
Citibank	32	2570.6	- .5
Data Resources	33	2588.6	+ .2
Economic Division, Equitable Life Assurance Company	34	2569.2	- .5
Morgan Guaranty Trust Company	35	2576.0	- .1
Arpus Research Corporation	36	2547.4	-1.4